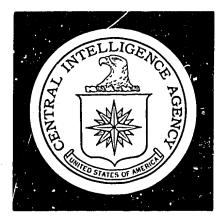
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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

Japan's Eight Point Economic Program: Progress And Prospects

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CENTRAL INTELLIGENCE AGENCY Directorate of Intelligence September 1971

INTELLIGENCE MEMORANDUM

JAPAN'S EIGHT POINT ECONOMIC PROGRAM: PROGRESS AND PROSPECTS

Introduction

program designed to	une, Prime Minister Sato announced an eight poir change some of the economic policies that had com
inder increasing criti	cism from Japan's major trading partners.
	This memorandum briefly describes the program an

Discussion

Liberalization in Perspective

- 2. Japan's current economic policies were developed after World War II to rehabilitate demestic industry, to encourage rapid economic growth, and, at the same time, to conserve badly needed foreign exchange. Measures taken included the erection of import barriers and the provision of numerous monetary and psychological incentives to stimulate export growth. Fearing that domestic companies would be taken over by large American firms, Japan also severely restricted the inflow of foreign private direct investment. As the economy recovered, however, Japan's major trading partners argued that trade and capital restrictions limiting access to the Japanese market should be dismantled.
- 3. Since the early 1960s, Tokyo has promised repeatedly to remove its trade and investment barriers, and by the summer of 1971 Japan had

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either removed or reduced most of the more obvious formal restrictions. Tariff rates have been cut and most quantitative restrictions on imports have been eliminated. For example, the number of imported products on the quantitative restriction list was reduced from 262 in October 1962 to 80 1/2 in January 1971. Also, barriers to foreign investment in Japan have been lowered. Because there has been substantial worldwide interest in investing in and exporting to Japan, this liberalization supposedly should have led to considerable foreign inroads into Japanese markets.		25X6 25X6
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The Eight Point Program		
5. Pressure mounted against the Japanese to speed up their liberalization program in the spring of 1971, and concern grew among		
Japanese leaders against Japanese foreign commercial policies. The Japanese were finding it particularly difficult to justify continuation of restrictive practices because of their very large trade surpluses and the rapid buildup of foreign exchange reserves. In June, Tokyo announced its eight point foreign economic policy program (see Table 1). The program calls for a liberalization of import and capital controls, a de-emphasis of export efforts in favor of more spending on the country's infrastructure, and an increase in assistance to less developed countries.	25 X 6	
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1. In addition there are some 48 defense-related items subject to QR's.		

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25 X 6	Prime Minister Sato, realizing that action was require undertook several moves. After the upper how elections in July, he reshuffled his cabinet with the announced purpo of speeding up action on the eight point program. The Sato administration also indicated it intended to formulate specific measures by the time the US-Japanese cabinet-level economic meetings in September.			

Import Liberalization

- Import liberalization under the new program is essentially a continuation of earlier measures. The 20 items taken off the quantitative restriction list on 30 June in fact originally had been scheduled for liberalization in April, but action had been postponed. Ten of the items liberalized were placed on the "Automatic Approval" (AA) list, which means that they are free of all formal restrictions, and the other ten, including automobile engines, on the so called "Automatic Import Quota" (AIQ) list, which still makes them subject to quantitative restrictions. The AIQ list, moreover, also was reduced almost by half to 37 items by removing color plates and film; air conditioning machinery; excavating, leveling, and similar machinery; sewing machines; valves; medical instruments and appliances; and a wide variety of other machinery. Excise taxes on automobiles, long a point of contention with the United States, were reviewed. Among the points under consideration are abolishing the 40% tax on large passenger cars and combining the category with medium-size vehicles to form a new "ordinary"-size group which will be subject to a 30% or perhaps a 20% tax. On the other hand, the Japanese removed many products from the tariff-free list and are increasing tariffs on several items being relieved of quantitative restrictions.
- 9. The liberalization of these formal barriers should spur US exports, but the extent of their growth depends partly on whether informal controls are relaxed.

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Liberalization of Foreign Direct Investment in Land	

Liberalization of Foreign Direct Investment in Japan

- 10. The list of industries affected by the fourth and supposedly final round of capital liberatlization was expanded probably as a result of Sato's efforts under the eight point program. Industries open to 50% foreign participation now include all but seven categories (see Table 2) originally some ten categories were to be excluded while those open to 100% foreign ownership were sharply increased from 77 to 228, probably many more than had been planned when the capital reform program got under way in 1967. While computers remain one of the seven completely restricted categories, foreign ownership of up to 50% will be automatically allowed three years hence, and some computer components will be liberalized socner.
- 11. For the most part the latest foreign investment reforms are a compromise with domestic pressure groups. The Foreign Investment Council, which obtains the necessary consensus for liberalizing, at first appeared determined to add 200 industries to the number open to 100% foreign ownership. In the final count, however, only 151 industrial lines were added to this category, 141 of which were transferred from the 50% list. Some industries have been subdivided to strengthen the impression that the number of decontrolled categories has been sharply increased. Moreover, 100% foreign control of existing firms is not permitted. The level of foreign portfolio investment in Japanese firms, except for the restricted seven, remains at a 25% ceiling, and a single individual or enterprise may own a maximum of only 10% of one company - a level that was recently raised from 7%. Even the liberalization which has taken place is subject to restrictions through informal procedures. Firms must follow guidelines suggested by the government or they will find it difficult to use domestic marketing channels and obtain credit locally. The firms may also be burdened with added reporting requirements.

Relaxation of Export Promotion

12. For at least a year, Tokyo has indicated it would eliminate the special financial incentives given to exporters. Although these allowances

are not very great, they nevertheless provide an additional stimulus for exporters. While formal steps have not yet been taken, Tokyo may soon eliminate several tax incentives for exports. The Finance Ministry has decided on details for terminating tax-free profits for overseas market development as well as a special tax exemption on certain overseas incomes. In addition, the depreciation allowances now accorded producers selling a certain share of their goods abroad will also be granted to producers for the domestic market. Although a more orderly and restrained marketing of exports has been mentioned as a goal, few concrete measures have been undertaken.

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Removal of Capital Outflow Restrictions

abroad were removed on 1 July 1971, it is doubtful that the outflow will increase much more rapidly than in recent years. Tokyo in the past few years has been liberalizing its capital outflow restrictions, and outflows have gone up accordingly. Total Japanese foreign assets — excluding foreign exchange reserves — grew from \$5 billion in 1965 to more than \$15 billion in 1970, an average increase of 25% per year. Provided that informal controls are not instituted to replace the formal ones, Japan's policies concerning private investment abroad should no longer be an issue.

Assistance to Less Developed Countries

14. The only improvement made in assistance to less developed countries was the preferential cut in tariffs for a number of countries on 1 August. These cuts, however, had been slated to go into effect for some time. Moreover, Tokyo has been very careful to protect itself from substantial adverse effects, and may in fact have gone so far that the cuts will have little significance. For example, there are many low quantitative ceilings on some imports beyond which preferential tariffs cease to apply. Indeed, soon after the announcement, a number of items imported from South Korea reached their quotas. In addition, preferences may be suspended if imports of any of the products increase enough to cause or threaten to cause injury to Japanese producers of the same or similar products. Suspension of preferences may apply to specific countries exporting a product.

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Stimulating Domestic Demand

15. The promise to pay more attention to domestic economic problems rather than to emphasizing exports has been made many times before. In fact, the last two development plans have highlighted this issue. The current effort to encourage domestic spending is related to Japan's economic slowdown, which is lasting longer than most Japanese economists had anticipated. Even before the June liberalization announcement, the government had either taken or contemplated moves to speed up the economy, including a further reduction in the official discount rate and increased public spending. Japan's trade surplus has been much greater than usual in recent months because weak domestic demand dampened imports and excess production was disposed of abroad. Once the economic slowdown is reversed, however, imports should pick up dramatically and export growth should slow somewhat.

Conclusions and Prospects

16. The effectiveness of the eight point liberalization program is still to be determined. Moves so far have amounted to only a slight acceleration of previously announced efforts. Most of the program's more significant aspects are still under study in Tokyo. These include removal of non-tariff trade and informal barriers, more reductions in tariffs, further liberalization of private foreign capital investment in the domestic economy, and the establishing of orderly marketing of exports to prevent dramatic increases. Overall, the liberalization program will probably proceed slowly. Pressures from domestic interest groups to retain their privileged positions in Japanese markets will continue and may grow as the measures begin to affect them. Moreover, removal of the remaining formal restrictions will be difficult because they protect important industries, such as computers whose competitive position is relatively weak. The more nebulous informal restrictions will be even harder to remove because they are deeply imbedded in Japanese business and administrative practices.

of the yen in terms of dollars probably will slow the pace of liberalization somewhat. One of the major reasons given for the introduction of the eight point program was to postpone yen revaluation for at least a year or so. Tokyo argued that the yen's true value could not be determined until the country's restrictive import controls were removed. Now, many Japanese who oppose liberalization are stating that further efforts should be postponed until the effect of the yen revaluation is known. Although top Japanese government officials have indicated that the eight point program is to be pursued as before, they will probably use the program as leverage

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to try to obtain removal of the US 10% surcharge. But although the pace of liberalization may be slowed, the program will be halted or reversed only in the unlikely event that the US measures severely hurt the Japanese economy.

Table 1

Tokyo's Eight Point Economic Program 4 June 1971

Import Liberalization

1. Reduce Quantitative Restrictions

Reduce restricted import items to 40 by the end of September 1971. The number will be reduced further toward the end of the current fiscal year which ends 31 March 1972.

2. Reduce Tariffs

Tariff cuts will be made as part of international efforts to reduce tariffs.

3. Remove Non-Tariff Barriers

An overall review will be made of the existing system.

Capital Liberalization

4a. Domestic Economy

Reduce industry categories where direct private foreign investment is prohibited.

4b. Abroad

Japanese investments abroad will be decontrolled: the purchase of land and foreign securities by individuals was liberalized as of 1 July 1971. The ceiling of \$100 million for institutional purchases of foreign securities also was lifted as of 1 July 1971. In addition, the ceiling of \$1 million for overseas investments by Japanese enterprises will be eliminated.

Assistance to Less Developed Countries

5. Preferential Tariffs for the Products of Less Developed Countries

This went into effect on 1 August 1971.

Table 1

Tokyo's Eight Point Economic Program
4 June 1971
(Continued)

6. Increase Aid

Promotion of economic cooperation: efforts will be made for both quantitative and qualitative improvements in economic cooperation with developing nations.

De-Emphasis of Exports

- 7a. Review Trade System
- 7b. Abolition of the export promotion taxation incentive system will be studied.
- 7c. Existing export promotion financing by the Bank of Japan will be reviewed.
- 7d. The current export financing by the Export-Import Bank of Japan will be reviewed. The Bank's function will be gradually shifted from export financing to import financing and/or overseas capital investment financing.

Emphasis on Domestic Development

- 8a. Flexible Operation of Fiscal and Monetary Policies
- 8b. Policies will be directed mainly to promote social overhead capital investments.

Table 2

Industries Remaining Closed to Direct Private Foreign Investment

Primary industries related to agriculture, forestry, and fisheries.

Oil refineries, distribution, and sales.

Leather and leather products manufacturing industry.

Manufacturing, sales, and leasing of electronic computers and computer systems.

Information processing industries, including computer software industry.

Retail trade operations involving more than 11 stores.

Real estate businesses.